DOE Working Capital Fund
WCF Cost Structure Analysis, FY 2006

Introduction

In response to the 1997 Inspector General report, Fund management agreed to provide a report to the Board that identifies Working Capital Fund business costs not now reflected in the Working Capital Fund pricing structure ... [including] the hypothetical impacts on business line viability of including such costs in the Fund pricing structure.[1] The first report was transmitted to the Board on June 30, 1998. This current report updates the information in the previous eight reports and summarizes areas of change.

Since the creation of the Working Capital Fund (WCF), there have been numerous changes in the structure and offerings of the Fund businesses:

- The Contract Audit and Executive Information System businesses were eliminated in FY 1998 and FY 1999, respectively;
- The Payroll business was added in FY 2000.
- The Supply business was outsourced in FY 2001;
- In FY 2001 the Board approved the addition of two new businesses, the Online Learning Center and CHRIS;
- Beginning in FY 2003, the Copy Business Line introduced document imaging and Optical Character Recognition (OPR) services; and
- For FY 2004, the Board approved the addition of a new Project Management Career Development Program business line, expansion of the Contract Closeout Business Line to include purchase card surveillance; expansion of the Online Learning Center Business, which was renamed to Corporate Training Services; and expansion of the Telephone business line to include cell phones and other devices.
- For FY 2006 the Desktop and Network Businesses merged into one business and the Department added the STARS business line (no employees).
- In FY 2006 the Office of Management, Budget, and Evaluation was reorganized into the successor organizations of the Office of Management, Office of Human Capital Management, and the Office of Chief Financial Officer. There are now four parent organizations for the WCF businesses including the Office of Chief Information Officer.

Summary of Results

From FY 2005 to FY 2006 Indirect Costs [2] decreased from 14% to 13% (12% without eXCITE) as a percentage of revenues. The change in percent was due to staffing declines in Building Occupancy and the Fund Manager. The decrease is offset, in part; by including eXCITE charges in this analysis for the first time. These personal computer charges were first recognized in the FY 2005 analysis but we did not quantify their impact until this year.

[1] Reference: Attachment to January 13, 1998 memorandum from the Assistant Secretary for Human Resources and Administration to the Acting Inspector General.

[2] The term, indirect costs as used in this paper, refers to costs that are not recognized in the Fund because of regulatory considerations. In fact, these categories of costs would normally be considered direct in most financial contexts.

Indirect Costs, estimated at $13.1 million for FY 2006, are funded in the budgets of the Office of Management, Office of Human Capital Management, Chief Financial Officer, and the Chief Information Officer. Figure A (page six) demonstrates the impact of the subsidies on business line cost structure (except Building).

Background

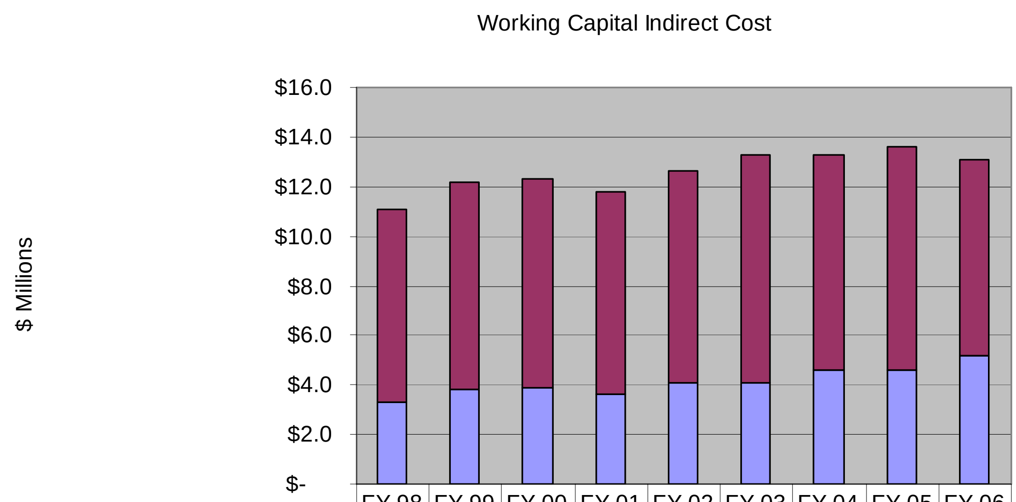
- Federal Accounting Standards Advisory Board (FASAB) guidelines for managerial cost accounting require that "all costs be recognized in developing the price at which goods and services would be sold to other entities [within the government]."

- However, since FY 1997, the House Energy and Water Development Appropriations Committee report has directed the Department not to include the costs of Federal employee salaries and benefits in the cost structures of the Fund business lines.

- The 1997 WCF report prepared by the DOE Inspector General also raised the issue of indirect costs, and management agreed to prepare an analysis of such costs by June 30, 1998 and to advise the Board of likely impacts on business line viability.

- While the policies of the House Appropriations Committee and DOE management preclude the inclusion of DOE Federal salaries and certain related costs in the Fund pricing structure, there remains the question of whether such exclusion may have a material impact on customer and business line behavior. This analytical question, rather than the policy question, is the subject of this report.

- This 2006 report concludes that the costs to the business lines would increase if we charge full cost by approximately $13.1 million, of 13%, if the cost structures were expanded to include salaries ($7.9 million) and other costs ($5.2 million)



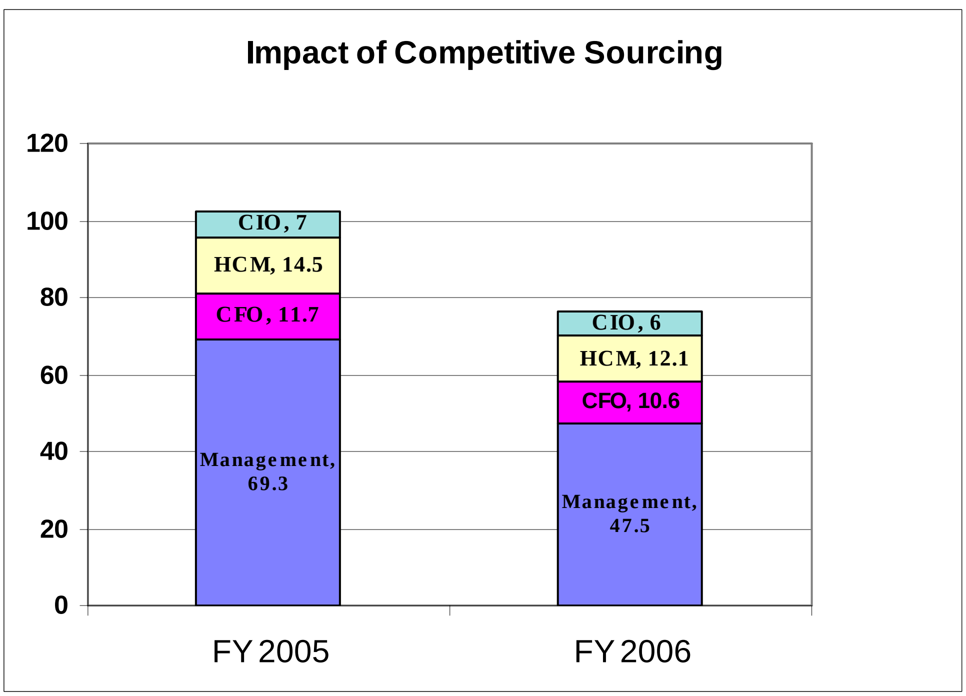
	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Federal Salaries and Benefits	$7.8	$8.4	$8.4	$8.2	$8.5	$9.2	$8.7	$9.0	$7.9
Other Costs	$3.3	$3.8	$3.9	$3.6	$4.1	$4.1	$4.6	$4.6	$5.2

Analytic Approach

The focus of the 2006 analysis was to validate and update the estimates provided with the 2005 report. Each business line manager provided updated employment and space estimates for their respective businesses. Space allocation estimates that affect the Building Occupancy charges associated with WCF businesses were also updated by the Business Occupancy business line manager. The data are presented on the basis of annualized FY 2006 costs as they were estimated at the time of the issuance of the May 2006 bill.

Staffing Levels

It is estimated that 76.2 Federal staff are directly engaged in the operation of the Fund businesses. Table III provides these estimates by business line in comparison to estimates in previous reports, and also includes FY 2006 salary and benefits estimates. It is important that this baseline is established to allow comparisons next year and beyond with post A-76 business line structures. In this comparison of FY 2005, FY 2006 you can see the effect of the changes on the Office of Management.



Inter-Business Transactions

Working Capital Fund businesses consume goods and services that are provided by other Fund businesses, but heretofore only a small proportion of these charges are made to the consuming business. For the most part, the offices of Chief Financial Officer, Management, Human Capital, and Chief Information Officer have paid these other related expenses as though they were derived from non-WCF activities. The 1998 analysis estimated these costs at approximately $3.3 million. These costs have grown incrementally each year to equal $5.2 million in FY 2006 ($4.6 million without eXCITE).

Table I: FY 2006 Inter-Business Costs ($000)

Business Line (Consumer)	Building Occupancy	Other WCF	eXCITE	Total
Telephones	$182	$31	$166	$379
Networking & Desktop	$1,040	$64	$68	$1,172
Building Occupancy	$682	$200	$104	$986
Supplies	$226	$43	$29	$298
Copiers	$188	$11	$27	$226
Mail Service	$207	$14	$7	$228
Printing & Graphics	$812	$62	$61	$935
Procurement Management	$59	$28	$54	$141
Payroll	$57	$58	$43	$158
Corporate Training Services (CTS)	$53	$30	$25	$108
CHRIS	$76	$237	$33	$346
Project Management Career Development Program (PMCDP)	$19	$46	$14	$79
WCF Management Activity	$11	$127	$8	$146
Total	**$3,612**	**$951**	**$639**	**$5,202**

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In this report, we have not attempted to quantify further costs that are absorbed by the parent organizations; such as, training or travel that might also be associated with the Federal employees performing WCF services. These charges are difficult to trace back to the business and deemed to have a trivial impact on this analysis.

Overall Cost Impacts on Businesses

Overall, we estimate that including the Federal salaries and inter-business costs in the Fund would expand Fund costs by $13.1 million. Table II below shows the subsidy rate for Building Occupancy of 6% which tends to bring the overall average down considerably. Without the Building Occupancy business, the average subsidy rate is estimated at 26%.

Table II: 2006 Subsidies by Business Line

Business Line (Consumer)	Total Subsidy ($000)	Percent of Current Billings
Fund Mgr	$328	0%
Building Occ	$3,597	6%
Phone	$585	7%
Supplies	$298	10%
Average for All Businesses		***13%***
Copiers	$421	15%
Mail	$414	19%
Network & Desktop	$1,869	27%
Average for Businesses other than Building Occupancy		***26%***
PMCDP	$342	34%
Payroll	$1,046	45%
CHRIS	$1,125	52%
Printing & Graphics	$1,674	65%
Corporate Training Services	$696	***417%***

WCF Cost Subsidy, 2006

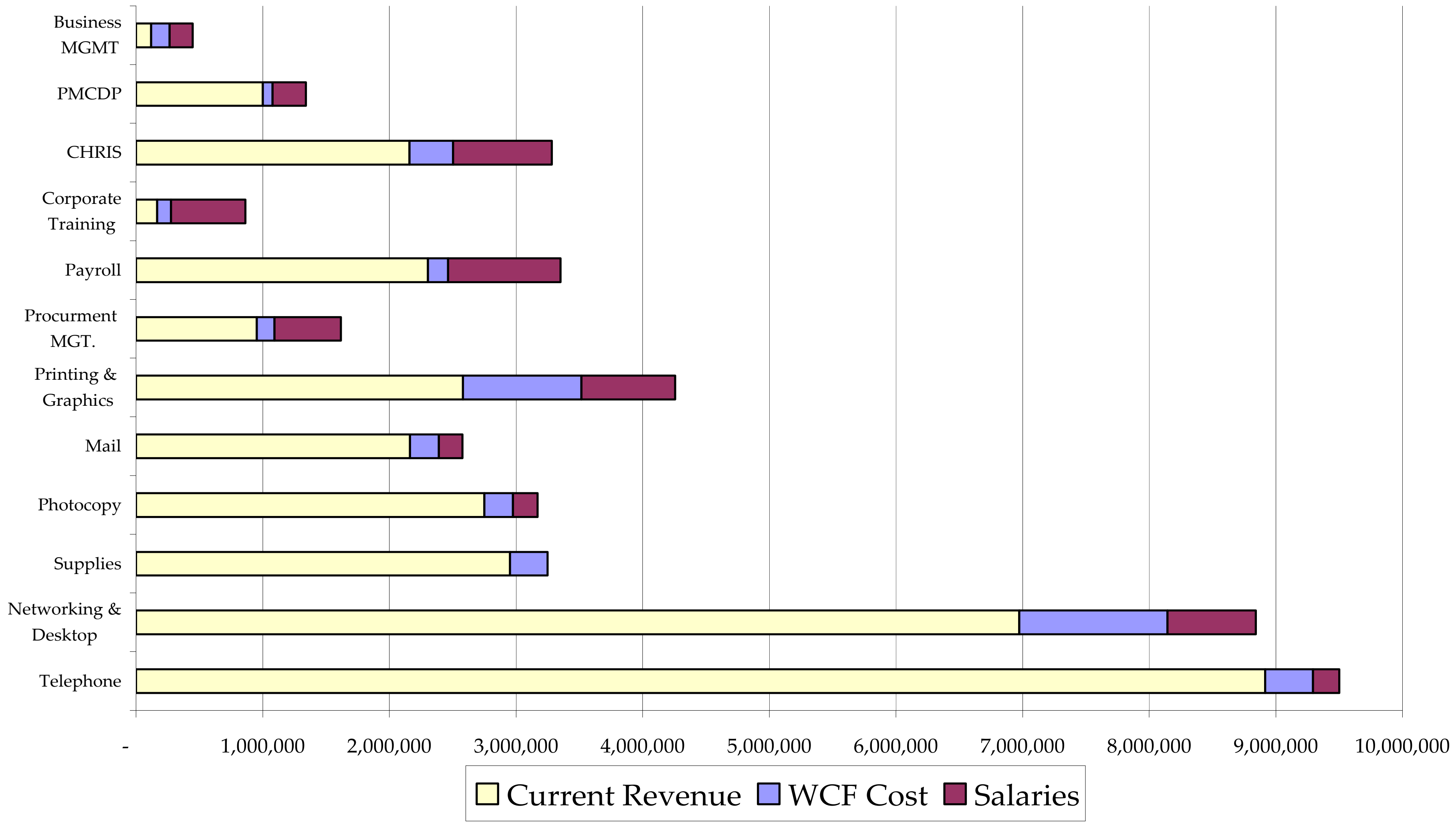

Table III: Federal Employees Engaged in Delivering WCF Services by Business Line, 1998 - 2006.

Business Line	Federal Staff members									FY 2006 Salaries & Benefits ($000)
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	
Telephones	3	4	4	3	3	3	3	2	2	$205
Networking	2	1	1	2	2	2	2	1.5	NA	NA
Desktop	3	3	3	3	3	3	5	3.5	NA	NA
Network & Desktop	NA	NA	NA	NA	NA	NA	NA	NA	4	$697
Building Occupancy	70	69	69	71	68	61	53	51	29	$2,611
Supplies	6	7	7	2	0	0	0	0	0	$0
Copiers	2	3	3	3	2	3	3	2.3	1.6	$195
Mail Services	2	2	2	2	3	2	2	2	2	$186
Printing & Graphics	25	24	23	22	23	14	12	9	9	$739
Procurement Management	0	0	0	2	3	3	4	3	4	$523
Payroll	7	17	11	15	12	11	11	9.4	9.4	$888
Corporate Training Services	NA	NA	NA	NA	3	5	3	6.5	5	$588
CHRIS	NA	NA	NA	NA	3	11	12	8	7.1	$780
PMCDP	NA	NA	NA	NA	NA	NA	2	2	1.9	$263
Fund Manager	NA	2	2	2	2	3	3	2.3	1.2	$182
Total	**120**	**130**	**125**	**127**	**127**	**121**	**115**	**102.5**	**76.2**	**$7,857**
Management Budget & Evaluation	NA	NA	115	119	119	113	105	NA	NA	$6,955
Management	NA	NA	NA	NA	NA	NA	NA	69.3	47.5	$4,517
Chief Financial Officer	NA	NA	NA	NA	NA	NA	NA	11.7	10.6	$1,850
Human Capital Management	NA	NA	NA	NA	NA	NA	NA	14.5	12.1	$588
Chief Information Officer	NA	NA	11	8	8	8	10	7	6	$205